FDIC State Profile

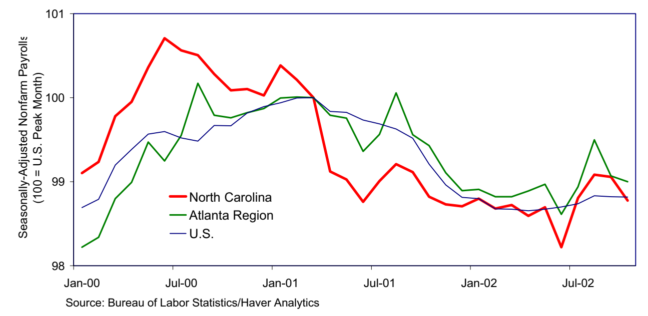
WINTER 2002

North Carolina

North Carolina is struggling to emerge from the recent recession, but significant layoffs in finance, high-tech and manufacturing continue to threaten the recovery.

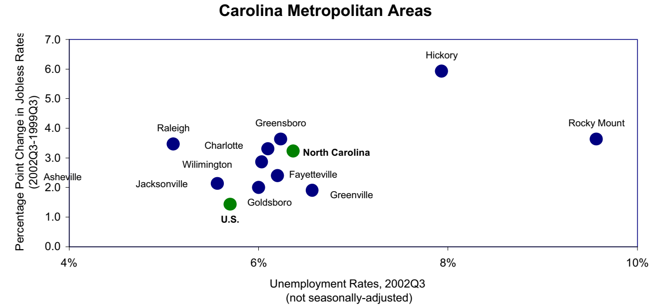
- Employment growth in North Carolina peaked in mid-2000; however, the state did not fall into recession until early 2001 (see Chart 1). Between the cyclical peak in June 2000 and October 2002, 76,000 jobs were lost, a decline of 1.9 percent. Economic conditions appeared to show signs of improvement by the beginning of third quarter 2002; however, a recent surge in layoff announcements in several industries could weaken the state's chances for economic recovery.
- The North Carolina labor market has worsened during the past three years, reflecting the effects of the recession. The nation's unemployment rose 1.4 percentage points between third quarter 1999 and third quarter 2002; the rate of unemployment in North Carolina more than doubled to 6.4 percent during the same period (see Chart 2).
- The state's economic performance during the recent recession has been shaped by the industrial mix. Manufacturing remains a greater component of the state's economy than at the national level, representing nearly 20 percent of the workforce, compared to 13 percent nationally. Traditional industries, such as furniture, textiles, and apparel production, continue to play an important role in many local economies. The state's high-tech sector also expanded during the 1990s. In addition, banking is an important component of the *Charlotte* and *Greensboro* MSA economies. Typically, a relatively high level of economic diversity may insulate economies during downturns. However, job losses have risen in the state's traditional and high-tech industries and job growth has declined in the financial services sector during the past few years (see Chart 3).
- The *Hickory* MSA is a clear example of how attempts to diversify economically do not always work as planned. During the 1990s, this metropolitan area diversified away from its traditional industries, such as furniture manufacturing, into fiber optic cable manufacturing. However, sharp

Employment Conditions in North Carolina Remain Weak



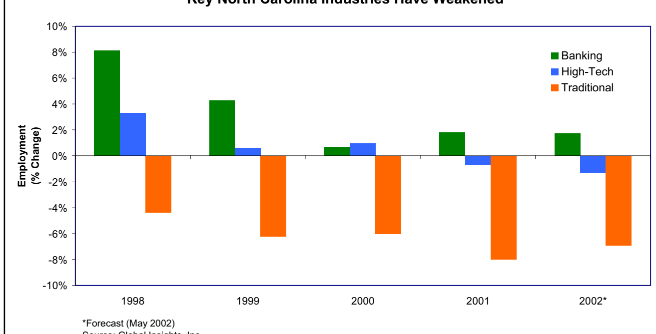
Source: Bureau of Labor Statistics/Haver Analytics

The Deterioration in Labor Market Conditions Varied Across North Carolina Metropolitan Areas



Source: Bureau of Labor Statistics/Haver Analytics

Key North Carolina Industries Have Weakened



*Forecast (May 2002)
Source: Global Insights, Inc.

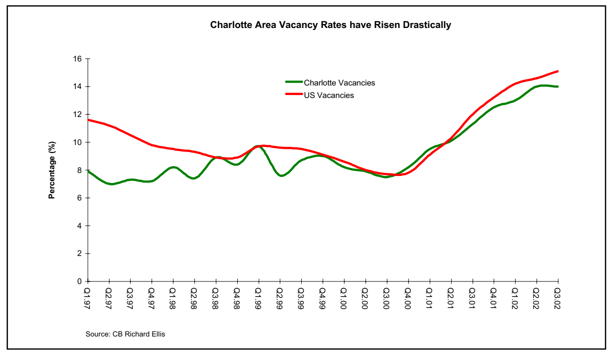
increases in jobless rates occurred in the telecommunications industry during this recession.

- Housing markets appear to be weakening in the *Raleigh*, Hickory, Charlotte, Greensboro, and *Greenville* MSAs where home price appreciation has moderated substantially. Earlier this year, builders in the Raleigh metro area increased inventories in expectation of a recovery late in the year.

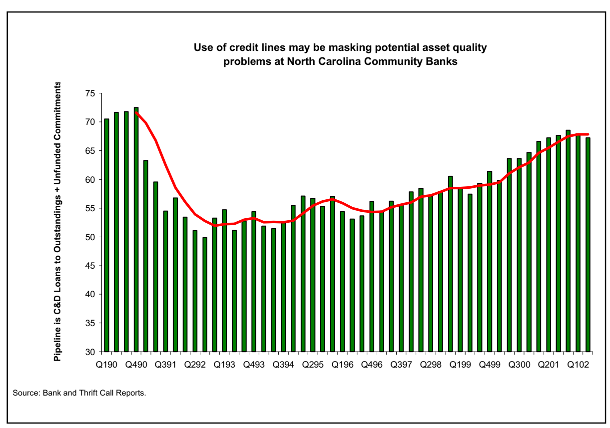
Continued weak economic growth, however, has cooled demand and builders have cut prices in an effort to reduce inventories.

Community banks headquartered in North Carolina[1] report sound conditions, but heightened balance sheet risk combined with economic weakness could lead to asset quality concerns.

- Overall performance among community banks headquartered in North Carolina improved during the year ending June 30, 2002. On a merger adjusted basis, net income rose 41 percent as higher net interest margins (NIMs) contributed to the increase. NIMs improved for thirty-four banks compared to twelve a year earlier.
- Aggressive interest rate cuts by the Federal Reserve beginning in early 2001 helped bolster net income as the combination of core deposits (64 percent of assets) and noncore borrowings (26 percent of assets) helped to lower funding costs.
- Rapid loan growth has continued even as the economy has weakened. Total loans grew 16 percent year- over- year with the majority of the increase occurring in commercial real estate (CRE) loans. Among community banks headquartered in North Carolina at June 30, 2002, CRE loans comprised 19 percent of assets, up from 16 percent a year ago, compared to a 10 percent concentration across the Region.
- Loan portfolio earnings were augmented by a shift into higher yielding CRE loans as return on assets increased to 1 percent, up from 0.81 percent a year earlier. While the increased exposure has bolstered profitability, community banks headquartered in the state also may have heightened the level of balance sheet risk. The average CRE exposure among insured institutions headquartered in the Raleigh, Charlotte, and Hickory MSAs[1] was significant. At least 20 percent of assets were held in CRE loans, increasing these institutions' vulnerability to rising vacancy rates. Banks in Charlotte, however, have not reported asset quality problems; despite a 14 percent office vacancy rate (see Chart 4). Noncurrent CRE loan levels among banks headquartered in the Raleigh and Hickory MSAs have trended higher.



- Community bank construction and development (C&D) loans, which primarily are for residential construction, continued to represent a significant portion of total assets at 9 percent. Asset quality had not shown signs of deterioration as of the end of third quarter 2002. In fact, noncurrent loan levels improved during the past year. However, debt restructurings and the use of credit lines may be keeping payments current, masking any weakening in loan quality (see Chart 5).



[1] Community banks have assets less than $1 billion and exclude specialty institutions

North Carolina at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	62	65	58	59	50
Total Assets (in thousands)	17,040,603	15,276,913	13,138,089	11,565,374	10,855,734
New Institutions (# < 3 years)	12	18	20	23	14
New Institutions (# < 9 years)	35	35	31	28	19

Capital	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Tier 1 Leverage (median)	9.15	9.69	10.45	11.68	10.64

Asset Quality	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Past-Due and Nonaccrual (median %)	1.18%	1.02%	0.87%	0.82%	1.13%
Past-Due and Nonaccrual >= 5%	1	3	2	2	1
ALLL/Total Loans (median %)	1.42%	1.45%	1.47%	1.45%	1.46%
ALLL/Noncurrent Loans (median multiple)	2.37	2.98	4.50	3.63	3.57
Net Loan Losses/Loans (aggregate)	0.18%	0.15%	0.08%	0.11%	0.17%

Earnings	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Unprofitable Institutions (#)	8	15	13	16	10
Percent Unprofitable	12.90%	23.08%	22.41%	27.12%	20.00%
Return on Assets (median %)	0.78	0.65	0.87	0.80	0.95
25th Percentile	0.47	0.03	0.23	-0.44	0.51
Net Interest Margin (median %)	3.95%	3.87%	4.41%	4.31%	4.69%
Yield on Earning Assets (median)	6.62%	8.24%	8.49%	7.84%	8.46%
Cost of Funding Earning Assets (median)	2.56%	4.39%	4.03%	3.43%	3.74%
Provisions to Avg. Assets (median)	0.32%	0.31%	0.33%	0.23%	0.27%
Noninterest Income to Avg. Assets (median)	0.91%	0.85%	0.73%	0.79%	0.84%
Overhead to Avg. Assets (median)	3.03%	3.27%	3.48%	3.50%	3.56%

Liquidity/Sensitivity	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Loans to Deposits (median %)	87.15%	85.17%	85.46%	81.24%	79.94%
Loans to Assets (median %)	72.85%	69.91%	69.88%	65.35%	65.82%
Brokered Deposits (# of Institutions)	25	16	8	6	3
Bro. Deps./Assets (median for above inst.)	7.59%	2.13%	3.03%	0.84%	0.29%
Noncore Funding to Assets (median)	24.03%	23.03%	20.51%	16.44%	15.34%
Core Funding to Assets (median)	64.24%	63.81%	65.95%	67.74%	70.89%

Bank Class	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
State Nonmember	51	55	52	52	42
National	5	5	5	5	6
State Member	6	5	1	2	2
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	22	5,982,058	35.48%	35.10%
Greensboro—Winston-Salem—High Point NC	13	4,142,546	20.97%	24.31%
Charlotte-Gastonia-Rock Hill NC-SC	8	1,246,612	12.90%	7.32%
Raleigh-Durham-Chapel Hill NC	7	2,619,115	11.29%	15.37%
Hickory-Morganton NC	4	1,546,838	6.45%	9.08%
Asheville NC	2	254,138	3.23%	1.49%
Wilmington NC	1	106,236	1.61%	0.62%
Rocky Mount NC	1	42,638	1.61%	0.25%
Norfolk-Virginia Bch-Newport News VA-NC	1	106,765	1.61%	0.63%
Greenville NC	1	24,048	1.61%	0.14%
Goldsboro NC	1	837,515	1.61%	4.91%
Fayetteville NC	1	132,094	1.61%	0.78%